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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Isabella County DHS for the period February 1, 2006 through January 31, 2007. The objective of our audit was to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Department of Human Services (DHS) are being followed. Isabella County DHS had 41 full time equated positions (FTE's) at the time of our review. Isabella County DHS provided assistance to an average 6,181 recipients per month in FY 2006, with total assistance payments of \$9,110,912 for the fiscal year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and accordingly, included the audit tests we deemed necessary under the circumstances. We obtained descriptions of significant systems operating at Isabella County DHS, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
Safe and Controlled Documents	State Emergency Relief (SER)
Direct Support Services	Client Processing
CIMS/ASSIST/LASR	Children's Protective Services
General Ledger	Modified Accrual Balance Sheet
Payroll and Timekeeping	Procurement Card

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that Isabella County DHS internal controls need improvement to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found no instances of noncompliance with policies and procedures for controlled documents, SER payments, client processing, procurement card usage, modified accrual balance sheet, or Children's Protective Services. However, we noted a few instances of noncompliance with policies and procedures in other areas, which are detailed in the findings and recommendations that follow below.

## **LOCAL OFFICE RESPONSE**

The management of Isabella County DHS has reviewed all findings and recommendations included in this report. They indicated in an e-mail dated October 15, 2007 that they are in general agreement with the report and have implemented corrective action for all findings.

## **FINDINGS AND RECOMMENDATIONS**

### **Cash Receipts**

#### **Preparation of Official Cashier's Receipts and Restrictively Endorsing Checks**

1. Isabella County DHS is not preparing Official Cashier's Receipts or endorsing checks on a timely basis.

A review of the dates recorded on the Official Cashier's Receipts with the dates the funds were recorded on the mail logs disclosed a lapse of time ranging from six to eleven days. Fiscal staff stated that negotiable instruments are restrictively endorsed when the Official Cashier's Receipt is prepared.

Accounting Manual 433 requires the Official Cashier's Receipt to be prepared and negotiable instruments endorsed when they are received from the mail room staff.

Failure to prepare the Official Cashier's Receipt and endorse negotiable instruments increased the risk that funds received at the Local Office may be misplaced.

WE RECOMMEND Isabella County DHS prepare the Official Cashier's Receipt and restrictively endorse negotiable instruments when they are received in the fiscal office.

### **General Ledger**

#### **Bank Reconciliation**

2. Isabella County DHS had an employee who was responsible for check writing also reconcile the bank statement. Accounting Manual Item 405 states that a person reconciling the bank statement must not be responsible for check writing, check signing, or blank check inventory control.

WE RECOMMEND that Isabella County DHS have an employee independent of the disbursement function reconcile the bank statement.

### **Cash Disbursements**

#### **Separation of Duties**

3. Isabella County DHS did not properly separate the cash disbursements duties. One employee signed the checks and had access to the blank checks. Accounting Manual Item 410 states that the person responsible for signing the checks should not have control of the blank check inventory.

WE RECOMMEND that Isabella County DHS have a person independent of the disbursement function be responsible for check signing.

### **Direct Support Services**

#### **Missing Documentation**

4. Isabella County DHS did not have complete information for four of the five cases we reviewed for Direct Support Services. One case did not have proof of vehicle ownership, three cases did not have a Support Services Determination (DHS-4749), three cases did not have payment documentation, and two cases did not have an MIS report. These forms are required by Program Eligibility Manual Item 232.

WE RECOMMEND that Isabella County DHS obtain appropriate case file documentation for all Direct Support Services cases.

### **CIMS and ASSIST Security**

#### **CIMS Security Agreements**

5. Isabella County DHS did not have accurate up-to-date CIS Security Agreements (DHS-3974A) on file for 30 out of the 37 employees who access the Client Information System (CIS) as required by the Primary Internal Control Criteria for Local Office Operations. An accurately completed Security Agreement is necessary to document that the employee understands the responsibilities associated with his/her level of access.

WE RECOMMEND that Isabella County DHS ensure that accurate, up-to-date security agreements are on file for all employees who access CIS.

#### ASSIST and LASR Security Transaction Reconciliation

6. Isabella County DHS did not reconcile the ASSIST Security Officers Log Report (VB9-173) to the ASSIST enrollment profiles or the LASR Security Officers Log Report (LR-853) to LASR Security Access Requests as required by the Primary Internal Control Criteria for Local Office Operations. Reconciliation of these reports ensures that all changes made are accurate and approved by supervision.

WE RECOMMEND that Isabella County DHS reconcile the (VB9-173) and LR-853 reports to ASSIST Enrollment Profiles and LASR Security Access Requests.

#### Back-up Tapes

7. Isabella County DHS did not have off-site storage for back-up systems tapes as required by the Primary Internal Control Criteria for Local Office Operations. Off-site storage protects from loss, theft, fire, or water damage.

WE RECOMMEND that Isabella County DHS use off-site storage for back-up systems tapes.

#### **Payroll and Timekeeping**

##### Payroll Reconciliation

8. Isabella County DHS did not reconcile the Time and Attendance Summary Report (HR-332A) with a Time and Attendance Summary Report (HR-332A) printed after the payroll had been certified on the Data Collection Distribution System (DCDS).

The Primary Internal Control Criteria for Local Office Operations states that the (HR-332A) printed on the first Friday of a pay period for the preceding pay period, after it

has been certified and released on DCDS, should be reconciled with the individual DHS-4299s.

WE RECOMMEND Isabella County DHS reconcile the Certified Time and Attendance Summary Report (HR-332A) after it has been certified and released on DCDS.